1-1-1982

Washington report, vol. 10 no.52, February 22, 1982

American Institute of Certified Public Accountants.

AICPA *Washington Report*

February 22, 1982, Volume X, Issue 52

HEALTH AND HUMAN SERVICES, DEPARTMENT OF

Reduction in the number of providers dealing directly with the Health Care Financing Administration (HCFA) is the subject of a notice of proposed rulemaking by the Administration (see the 2/18/82 Fed. Reg., pp. 7269-71). HCFA is proposing to modify Medicare regulations concerning the option available to Medicare providers to elect to receive payment directly from HCFA, rather than through an intermediary, for covered services furnished directly from HCFA. A reduction in the workload would increase the ability to administer the program more efficiently and control costs, because, among other reasons, "it would be more efficient to have a contractor use its accountants to conduct cost report audits than for HCFA to locate and contract with the accounting firms, as now is the case. HCFA intends to contract with existing Medicare fiscal intermediaries, whose accountants are specialists in Medicare principles of provider reimbursement." Additionally, "contracting out the service to existing intermediaries would increase the ability to identify fraud and abuse." Comments are requested by 3/5/82. For additional information contact Norman Fairhurst at 301/594-9498.

Changes in the method of counting income in the Supplemental Security Income Program for the aged, blind, and disabled have been proposed by the Department's Social Security Administration (see the 2/17/82 Fed. Reg., pp. 6885-6). The Administration proposed to revise the existing rules that count only net receipts. According to SSA, this change is proposed in recognition of the fact that legal obligations are being satisfied (other benefit overpayment debts are being reduced) and that SSI program benefits should not make up for an individual's reduction or satisfaction of legal obligations. Counting only net amounts may result in an increase in SSI benefits up to the amount withheld by the other benefit program to recover prior overpayments, the practical effect according to SSA, being that SSI benefits are used to satisfy other benefit overpayment debts. Comments are requested by 3/19/82. For additional information contact Rita Hauth at 301/594-7112.

HOUSING AND URBAN DEVELOPMENT

A change in the method of computing interest on defaulted property improvement loans is the subject of a recently proposed rule (see the 2/17/82 Fed. Reg., pp. 6893-4). The proposed amendment relating to the recovery of defaulted property improvement loans would require interest on all claims held by the Federal Housing Commissioner be calculated by applying installment payments first to the interest and then to the principal (the "U.S. Rule"). Under present regulations, interest on defaulted property improvement loans is excluded from applicability of the "U.S. Rule." Comments are requested by 4/19/82. For additional information contact John Brady at 202/755-6680.

INTERSTATE COMMERCE COMMISSION

The Uniform System of Accounts and all periodic reports of Class II railroads were eliminated recently by the Commission (see the 2/17/82 Fed. Reg., pp. 6879-81). In evaluating the use of information filed and maintained by the carriers, the Commission concluded that the accounting and reporting burden is no longer justified. The final rule eliminating the USOA and periodic reports is consistent with the Commissions' policy of requiring disclosure of only that data that is useful to fulfill regulatory responsibilities. The rule is effective for the reporting year ending 12/31/81. For additional information contact Wayne Howard at 202/275-7448.

A discussion memorandum to identify rail accounting principles, which will allow the ICC to revise its accounting and reporting rules for Class I line-haul railroads, if necessary, is currently available to the public (see the 2/17/82 Fed. Reg., p. 7015). According to the ICC, the data reported by railroads will eventually be used for jurisdictional tests and rate reasonableness determinations. Comments are requested by 3/30/82. For additional information contact Thomas Carter at 202/275-7523.

SECURITIES AND EXCHANGE COMMISSION

Commissioner John R. Evans recently urged swift congressional action on proposals to remove barriers separating commercial banking from investment banking. Speaking recently at the Second Annual Southern Securities Institute in Key Biscayne, Fla., Evans argued that "there is no natural division between banking and investment banking and that the artificial division imposed by statute is unclear." He said that customer protection and regulation of financial services would be improved by removal of certain Glass-Stegall restraints. "Concerns of economic power, self dealing, conflicts of interest, fair competition and investor protection can be dealt with much more efficiently through means such as disclosure, deposit insurance, antitrust laws and limitations on certain transactions between financial affiliates all administered by competent regulators with authority to be flexible under congressional oversight," stated Evans. Evans also noted that the SEC had proposed a five point program regarding financial services which had as its major initiative the creation of a task force with a one year mandate to come up with a legislative framework for overhauling regulation of financial services.

TREASURY, DEPARTMENT OF

Statutory changes made in 1978 regarding the deduction of foreign moving expenses have been implemented by the IRS (see the 2/10/82 Fed. Reg., pp. 6002-03). The new rules include the following changes: a 90-day limitation on the deduction of the cost of temporary quarters; an increase in the dollar limitation on temporary living costs from $1,500 to $4,500; a doubling of the limitation on the deduction of the aggregate qualified residence sale to $6,000; and, the inclusion of certain storage expenses in deductible foreign moving expenses. In addition to the special rules for foreign moving expenses, the regulations deal with the allowance of moving expense deductions in the case of retirees or dependents of decedents who were working abroad. The regulations are generally effective for expenses paid or incurred in taxable years beginning after 12/31/78.

Treasury initiatives on a wide range of Administration recommended tax law changes were highlighted in a 2/13/82 address by John Chapoton, Assistant Treasury Secretary for Tax Policy, before the American Bar Association's Tax Section mid-year meeting in Orlando, FL. Promising action through a combination of administrative procedures and requests to Congress for legislation, Chapoton reviewed the Administration's proposals on corporate alternative minimum tax, completed contract method of accounting, modified coinsurance arrangements, withholding on interest and dividends, partnership audits and the so-called "underground economy." With respect to the completed contract method of accounting, Chapoton stated that Treasury planned to issue proposed regulations which would disallow current deductions of many period costs and also preclude contracts from being artifically prolonged by providing for severability of portions of the contracts as items are completed and delivered. Legislatively, Treasury will propose allowing contractors to only use the percentage of completion or progress method of accounting for long-term contracts for tax purposes, effectively precluding the completed contract method. Transition rules would be provided for current contracts in progress.

SPECIAL: THRIFT PARTNERSHIP LEGISLATION SUBJECT OF RECENT SENATE HEARING

A measure designed to enable thrift institutions and private investors to form partnerships and market the unrealized losses in their mortgage loan portfolios, S. 1828, the "Thrift Partnership Tax Act of 1981," was the subject of a recent joint hearing held by the Senate Finance Subcommittee on Taxation and Debt Management and the Senate Banking Subcommittee on Housing and Urban Affairs. As is the intent of the legislation, thrift institutions and investors would be allowed to form partnerships in which low-yielding mortgages held by S&Ls would be transferred to the partnership to be sold at a discount. The investor partner would pay the S&L the difference between book and market values of the loans, and in turn, be able for tax purposes to write off the loss from the partnership's discounted loan sales. Proceeds from the sales, as well as investor cash contributions, would be reinvested in new mortgages with the profits to be allocated between the S&L and the investor. According to Tax Legislative Counsel for the Treasury Department, William S. McKee, Treasury could lose up to $50 billion in revenues under the proposal. Mr. McKee stated that Treasury opposes the legislation because the bill would "provide special exceptions to established tax rules that are designed to prevent distortions of a taxpayer's taxable income; open the way to tax rate arbitrage by thrift institutions and would present a significant potential for abuse; and, the marketing of interests in qualified thrift partnerships as tax shelters for high bracket investors would damage the public's perceptions concerning the fairness of our tax system." Other witnesses disagreed with Treasury's position. As a result of a recently concluded economic analysis, one witness testified that for every $1 billion of mortgages sold under the provisions of the bill, net revenue increases for Treasury could range from $60 to $250 million. Another witness stressed S. 1828 would help thrifts keep up their net worth to assets ratio and increase income. Further adding, since S&Ls have to make up losses on low-yielding mortgages by charging 16½% with 1½ points in fees, the measure could help S&Ls dispose of those mortgages, thus lower costs and reduce rates for borrowers to 13½% or 14%.

For additional information, please contact Jim Kovakas, Gina Rosasco, Nick Nichols or Kathee Baker at 202/872-8190.

AICPA *Washington Report*

American Institute of Certified Public Accountants
1620 Eye Street, N.W., Washington, D.C. 20006

FIRST CLASS MAIL